

## Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 XMB-07 EB-11 PA-03 PRS-01 USIA-15

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L-03 FPC-01 SCEM-02 SS-15 NSC-10 DRC-01 /096 W

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R 181013Z SEP 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 8065

INFO CINCPAC

C O N F I D E N T I A L MANILA 10642

PASS EXIM

E O 11652: GDS

TAGS: EFIN, RP

SUBJ: ANNOUNCEMENT OF LOPEZ OFFER TO SELL INTERESTS IN MERALCO  
COMPANIES

1. PHILIPPINE PRESS REPORTED ON SEPTEMBER 18 OFFER BY EUGINIO LOPEZ, SR., TO SELL ALL LOPEZ HOLDINGS IN MERALCO GROUP OF COMPANIES. ACCORDING PRESS LOPEZ WIRED PRESIDENT MARCOS ON SEPTEMBER 13 THAT HE AND FORMER VICE PRESIDENT FERNANDO LOPEZ "...SUPPORT THE PROGRAM OF CHANGE YOU WISH TO BE INSTITUTED IN THE MERALCO GROUP OF COMPANIES". PROGRAM WILL INCLUDE (A) SALE OF HOLDINGS ON SELF-LIQUIDATING BASIS TO FOUNDATION, (B) RESIGNATION OF MANAGEMENT PERSONNEL WHO DO NOT MEET NEW SOCIETY STANDARDS AND (C) STEPS TO REDUCE COSTS IN MERALCO OPERATIONS. LETTER PRESENTING DETAILS ON PROPOSAL WILL BE FORWARDED TO MARCOS FOR APPROVAL.

2. ANNOUNCEMENT APPEARS CONSISTENT WITH EARLIER REPORTS TO EMBASSY THAT SETTLEMENT BEING WORKED OUT BETWEEN LOPEZ FAMILY AND MARCOS. REPORTED INCLUSION OF ALL MERALCO COMPANIES IN SALE OFFER WILL HAVE CONSIDERABLY MORE DRASTIC EFFECT ON ECONOMIC POWER OF LOPEZ FAMILY THAN WOULD SALE OF INTERESTS IN MERALCO (MANILA ELECTRIC COMPANY) ONLY. PRICE AND DETAILS ON MECHANISM OF SALE NOT YET AVAILABLE BUT PROPOSAL APPARENTLY CONTEMPLATES CREATION OF A TRUST TO HOLD SHARES  
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FOR SALE TO MERALCO CUSTOMERS INCLUDING THOSE CONSUMING LESS THAN

PESOS100 OF ELECTRICITY MONTHLY. SCHEME MAY INCLUDE RATE INCREASE WITH PROCEEDS USED TO FUND SHARE PURCHASES.

3. WHILE INCREASE IN MERALCO SHARE PRICE OVER PAST THREE WEEKS FROM PESO 9.80 TO PESO 17.20 MAY REFLECT CONFIDENCE IN SOME QUARTERS THAT MERALCO'S PROBLEMS ARE ON WAY TOWARD RESOLUTION, IMPORTANT QUESTION ABOUT MERALCO FUTURE REMAIN. COMPANY IS NOT NOW BREAKING EVEN. SHORT-TERM FINANCING IS IN PESO 200 MILLION RANGE WITH ROLLOVER SCHEDULED END OF SEPTEMBER AND END OF YEAR. COMPANY'S REPUTATION HAS SUFFERED FURTHER EROSION IN PAST WEEKS WITH EXTENSIVE SCHEDULED BROWNOUTS ATTRIBUTED TO GENERATOR FAILURES. COMPANY IS SEEKING GOVERNMENT GUARANTEES FOR \$40 MILLION IN ADDITIONAL FINANCING TO PERMIT RESTRUCTURING OF SHORT-TERM DEBT AND WILL ALSO REQUIRE SUBSTANTIAL RATE INCREASES TO SERVICE DEBT AND ENABLE PROFITABLE OPERATIONS. MOREOVER, MORE NEEDS TO BE KNOWN ABOUT WHO WILL EXERCISE FUTURE OPERATIONAL CONTROL OVER MERALCO AND OTHER COMPANIES IN GROUP.

4. EMBASSY SOURCES STATE EUGENIO LOPEZ, SR. PLANS TO RETURN TO PHILIPPINES ONCE QUESTIONS INVOLVING MERALCO GROUP HAVE BEEN WORKED OUT. HOWEVER, PRESIDENT MARCOS HAS NOT STATED HIS INTENTIONS REGARDING ANY REQUEST FROM LOPEZ FOR ASSURANCES ON TREATMENT HE CAN EXPECT OR POSSIBILITY OF RELEASE FROM DETENTION OF EUGENIO LOPEZ, JR. SULLIVAN

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**TAGS:** EFIN, RP  
**To:** STATE  
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